

A REPORT  
TO THE  
**ARIZONA LEGISLATURE**

Accounting Services Division

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Compliance Review

# **Isaac Elementary School District No. 5**

Year Ended June 30, 2006

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**Debra K. Davenport**  
Auditor General

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## Accounting Services Division Staff

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**Jerry Strom**, Manager and Contact Person  
jstrom@azauditor.gov

**Valerie Deaton**  
**Elizabeth Vore**

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**DEBRA K. DAVENPORT, CPA**  
AUDITOR GENERAL

**STATE OF ARIZONA**  
**OFFICE OF THE**  
**AUDITOR GENERAL**

**WILLIAM THOMSON**  
DEPUTY AUDITOR GENERAL

February 15, 2008

Governing Board  
Isaac Elementary School District No. 5  
3348 West McDowell Road  
Phoenix, AZ 85009-2416

Members of the Board:

We have reviewed the District's audit reports and Uniform System of Financial Records (USFR) Compliance Questionnaire for the year ended June 30, 2006, prepared by Cronstrom, Osuch & Company, P.C. to determine whether the District substantially complied with the USFR.

As a result of our review, we noted significant deficiencies in internal controls that indicate the District had not complied with the USFR. District management should implement the recommendations we have described in this report within 90 days after the date of this letter. We have communicated specific details for all deficiencies to management for correction.

We also noted that Cronstrom, Osuch & Company, P.C. qualified their opinion on the District's financial statements for the year ended June 30, 2006, because the District did not reconcile cash on deposit with the county treasurer during the year, and the auditors were unable to satisfy themselves that revenues were properly recorded among governmental funds or within the correct line items of the governmental funds or governmental activities.

During the 90-day period, the District may request a meeting to discuss these recommendations with my Office and the Arizona Department of Education by calling Magdalene Haggerty, Accounting Services Director, or Jerry Strom, Accounting Services Manager.

A member of my staff will call the Director of Finance in several weeks to discuss the District's action to implement these recommendations. After the 90-day period, my staff will schedule an on-site review of the District's internal controls to determine whether the District is in substantial compliance with the USFR. Our review will cover the deficiencies we have communicated to management as well as any other internal control deficiencies we are aware of at the time of our review.

Sincerely,

Debra K. Davenport  
Auditor General

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# INTRODUCTION

Isaac Elementary School District No. 5 is accountable to its students, their parents, and the local community for the quality of education provided. The District is also financially accountable to taxpayers for over \$71.8 million it received in fiscal year (FY) 2006 to provide this education.

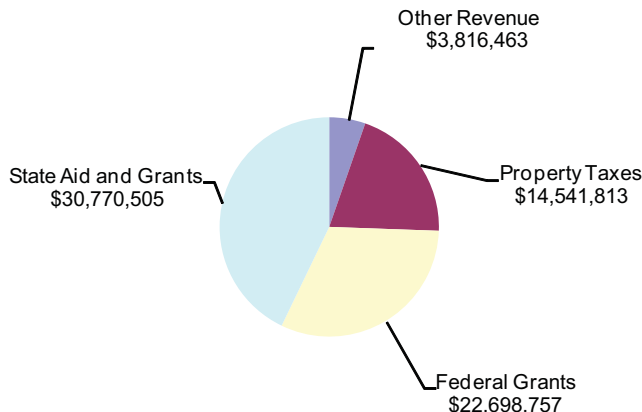
The District should use effective internal controls to demonstrate responsible stewardship for the tax dollars it receives. These controls are set forth in the *Uniform System of Financial Records* (USFR), a joint publication of the Office of the Auditor General and the Arizona Department of Education (ADE). The policies and procedures in the USFR incorporate finance-related state and federal laws and regulations and generally accepted accounting principles applicable to school districts. Districts are legally obligated to comply with USFR requirements, and doing so is good business practice.

As a result of our review of the District's audit reports and USFR Compliance Questionnaire for the year ended June 30, 2006, we determined that the District had failed to comply with the USFR. We noted certain deficiencies in controls that the District's management should correct to ensure that it fulfills its responsibility to establish and maintain adequate financial stewardship and to comply with the USFR. In addition, as described in our enclosed letter, the District's contract auditors qualified their opinion on the District's financial statements for the year ended June 30, 2006. Our recommendations are described on the following pages.

## District Facts Fiscal Year 2006

County: Maricopa  
Number of Schools: 13

Number of Students: 8,053  
Grade Levels: K-8



Source: Annual Report of the Arizona Superintendent of Public Instruction for Fiscal Year 2005-2006 and Isaac Elementary School District No. 5 Annual Financial Report Fiscal Year Ended June 30, 2006.

# The District should strengthen controls over cash

Because of the relatively high risk associated with cash transactions, the District should establish and maintain effective internal controls to safeguard cash. However, proper controls and oversight were not established for cash receipts as the District

The District's auditors issued a qualified opinion on the District's financial statements because the District's records of cash balances were not reconciled to the County Treasurer's records at June 30, resulting in more than \$3.8 million of unrecorded revenues.

did not properly reconcile its records of cash balances to the County School Superintendent's (CSS) or the County Treasurer's

records. As a result, the District had \$3.8 million in unrecorded revenues during the year, and the District's auditors issued a qualified opinion on the District's financial statements.

Additionally, the District holds student activities monies raised through students' efforts for safekeeping; therefore, the Governing Board is responsible for establishing oversight for student activities monies to ensure that proper procedures are followed for collecting and spending them. However, the Governing Board did not appoint a student activities treasurer; therefore, student activities disbursement checks were not signed by the student activities treasurer and one other person designated by the Governing Board. Further, the District did not always prepare and maintain receiving reports for student activities disbursements and did not always include the amount received on student activities cash receipt forms. Finally, the District did not always deposit food service and student activities cash receipts in a timely manner and did not properly reconcile the Maintenance and Operations revolving and student activities bank accounts.

## Recommendations

To strengthen controls over cash and bank accounts, the District should:

- Reconcile its records of revenues, expenditures, and cash balances by fund monthly to the CSS' and County Treasurer's records. If these amounts do not agree, individual revenue and expense transactions should be compared. All reconciling items should be investigated and any necessary corrections made.
- Appoint a student activities treasurer, and ensure that student activities checks are signed by the student activities treasurer and one other person designated by the Governing Board.
- Prepare and maintain receiving reports for all goods and services received. The date of receipt, quantity received, and the recipient's signature should be noted on the receiving report.

- Prepare complete and accurate cash receipt forms for all monies received.
- Deposit cash receipts intact daily, if significant, or at least weekly.
- Prepare complete and accurate monthly written bank reconciliations for all bank accounts to reconcile bank and checkbook balances. All differences should be investigated and resolved.

## The District should ensure the accuracy of its accounting records and improve its financial reporting

The District's Governing Board depends on accurate information to fulfill its oversight responsibility. The District should also report accurate information to the public and agencies from which it receives funding. To achieve this objective, management should ensure that its accounting records, budgets, and annual financial report (AFR) are accurate and complete. However, the District did not fully accomplish this objective. Specifically, the District's budgeted expenditures reported on the AFR did not agree with the District's most recently revised expenditure budget. In addition, actual beginning fund balances, revenues, and expenditures reported on the AFR did not always agree with the District's accounting records.

The District failed to properly prepare, file, and publish its expenditure budget and annual financial report as required.

The District also has a responsibility to publish and report various budgeted and actual financial information in a timely manner to allow taxpayers and the State to review the District's activities. However, the District failed to file its expenditure budget and AFR in a timely manner and did not maintain the publisher's affidavits of publication of the proposed expenditure budget and AFR. Also, the daily route miles and number of eligible students transported used in preparing the District's Expenditure Budget Worksheet D did not agree with the ADE Transportation Route Report.

## Recommendations

To help ensure the accuracy of its accounting records and improve its financial reporting, the District should:

- Update its accounting records for all budgeted amounts, revenues, and expenditures before preparing the AFR and have a second employee verify that the amounts reported on the AFR agree with the District's accounting records before submitting it to ADE.

USFR Memorandum No. 230 provides guidance for completing and submitting the Annual Financial Report.



- Publish or mail the proposed expenditure budget, or budget summary and the notice of public hearing and board meeting no later than 10 days prior to the meeting to consider the budget.
- Publish or mail the District-wide and School-by-School AFR Summaries, or the entire AFR, no later than November 15.
- File required documents with the Superintendent of Public Instruction and the CSS by their specified deadlines and retain documentation to support that the documents were submitted.
- Retain accurately completed records and supporting documentation in accordance with the *General Records Retention Schedule for All School Districts* that the Arizona State Library's Records Management Division published.
- Obtain daily route miles and number of eligible students transported from the prior year's ADE Transportation Route Report (TRAN 55-1) for use in completing the expenditure budget worksheets.

## The District should ensure the accuracy of its student attendance records

The State of Arizona provides funding to school districts based on membership and absences. In turn, the State requires school districts to maintain accurate attendance records to ensure that districts receive the appropriate amount of state aid and local property taxes. However, the District did not accomplish this objective, as absences reported during the 100th-day reporting period were not properly calculated. For example, the District incorrectly calculated absences for kindergarten students and partial-day attendance for elementary and junior high students. Finally, the District did not maintain documentation to support student sign-in and -out times.

## Recommendations

To help ensure that the District receives the correct amount of state and local funding, the District should:

- Record kindergarten students, with total instruction time between 346 and 692 hours per year, as absent if in attendance for less than three-quarters of the day. If instructional time for the year was 692 hours or more, students not in attendance at least one-half of the day should be counted as absent.

- Record attendance for students enrolled in first through eighth grades, if attendance is based on half-days, as follows:
  - Attendance for at least three-quarters of the instructional time scheduled for the day should be counted as a full day of attendance.
  - Attendance for at least one-half, but less than three-quarters, of the instructional time scheduled for the day should be counted as a half-day of attendance.
- Retain documentation, including sign-in and -out sheets, to support membership and absences reported to ADE.

ADE provides guidance for attendance reporting requirements in its *Instructions for Required Reports*.